



Nacimiento Project Commission Notice of Meeting and Agenda

**Thursday, April 27, 2006 – 4:00 pm
Templeton Community Services District Board Room
420 Crocker Street, Templeton CA**

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- I. Call to Order, Roll Call, and Flag Salute
 - II. Public Comment
This is the opportunity for members of the public to address the Commission on items that are not on the agenda, subject to a three minute time limit.
 - III. Meeting Notes from February 16, 2006
(RECOMMEND APPROVAL)
 - IV. SPECIAL PRESENTATION
 - a. Salinas Valley Water Project – Report by Monterey County Water Resources Agency
 - V. COMMISSION INFORMATION ITEMS – written reports with brief verbal overview by staff or consultant. No action is required.
 - a. Project Management Report
 - b. Project Schedule
 - c. Project Budget
 - VI. PRESENTATIONS – no action required.
 - a. Preliminary Design Report and Total Project Cost Update
 - VII. COMMISSION ACTION ITEMS
(Commission action only, no subsequent Board of Supervisors action required)
 - a. (none)
 - VIII. COMMISSION ACTION ITEMS
(Board of Supervisors action is subsequently required)
 - a. (none)
 - IX. FUTURE AGENDA ITEMS DESIRED BY COMMISSION

Commissioners

Harry Ovitt, Chair, SLO County
Flood Control & Water
Conservation District

Dave Romero, Vice Chair, City of
San Luis Obispo

David Brooks, Templeton CSD

Grigger Jones, Atascadero MWC

Frank Mecham, City of El Paso
de Robles

**Next Commission meeting scheduled for
Thursday, June 22, 2006, at 4:00 pm at
Templeton Community Services District offices.**

Nacimiento Project Commission
April 27, 2006
Agenda Item III – Meeting Notes from February 16, 2006

I. Call to Order, Roll Call and Flag Salute

Vice Chairman Romero convened the meeting at 4:00 pm.

Commissioners Present: Vice-Chairman Dave Romero, City of San Luis Obispo
Frank Mecham, City of el Paso de Robles
David Brooks, Templeton CSD
Grigger Jones, Atascadero MWC

II. Public Comment – (none)

III. Meeting Notes from December 15, 2005 Meeting

Commissioner Mecham moved approval of the December 15, 2005, meeting notes; Commissioner Brooks seconded the motion. Passed unanimously.

IV. Commission Information Items

John Hollenbeck delivered the project management report, noting that six of the eight value engineering panelists have committed to participate during the week of March 13, 2006. The VE session is likely to take place in Southern California to limit travel expenses for the event. Mr. Hollenbeck displayed progress drafts of the preliminary design report, stating that it would be distributed to Participants and other team members on February 22, 2006. (Commissioner Jones joins the meeting at this point.)

The delivered water costs to potential New Participants, particularly the energy component of such deliveries, are being evaluated by Black & Veatch now. The City of Arroyo Grande recently designated Nacimiento supplies as second in priority to desalination as the means of supplementing community water supply. This was apparently based on the projection that desalination costs over the long-term are lower than Nacimiento deliveries. Commissioner Romero noted that power costs are likely to render desalination more costly in the long run and Commissioner Mecham noted that the limited Nacimiento supplies may be spoken for by others before too long.

Mr. Hollenbeck awaits a response on the District's Proposition 50 funding application and expects such response by the end of this month. The project Finance Committee participated in a conference call on February 9, 2006, and committed to issuing an updated schedule for bond issuance. Commissioner Romero asked if final construction values were needed to issue bonds and Mr. Hollenbeck replied that ideally a single bond issuance could be made; however a more likely scenario is that a second bond issuance would be made to cover unforeseen costs/deviations from engineer's estimates, etc. The bond issuance strategy has yet to be finalized. Commissioner Romero asked what approaches would be employed to address construction cost escalation and Mr. Hollenbeck mentioned the Caltrans method of adhering to an escalation clause that allows materials costs to adjust up or down as pricing varies over the life of the contract.



Congressman Thomas recently asked for a project update letter and funding request form completion, both of which were submitted last week.

Deputy County Counsel Pat Foran distributed a memorandum dated February 16, 2006, regarding the role of County Counsel at Commission meetings. The Commission acknowledged receipt of the memo.

Mr. Hollenbeck reported on the status of the Delivery Entitlement Contract Amendment No. 2 regarding limiting the size of the Commission, stating that a revised draft will be submitted to each Participant's staff and legal counsel for review before agendaizing for action at each agency's governing board.

With regard to right-of-way activities, designers are evaluating alignment alternatives affecting one winery and one creekside property. Objections to pipe alignment have been voiced by two property owners. Easements through Camp Roberts will be 25- or 50-year terms as opposed to being recorded in perpetuity.

Permit applications are on schedule for submittal in March 2006.

Black & Veatch will present their updated engineer's opinion of probable cost at the April 2006 Commission meeting to coincide with the draft PDR submittal and value engineering input.

Mr. Hollenbeck noted that PG&E suggests a different basis for calculating the connection fee than stated in previous meetings. He noted possible strategies for negotiating this fee fairly.

The elected official's meeting with Monterey County Water Resources Agency is planned for March 24, 2006, with Commissioner Mecham and Chairman Ovitt to represent the project Commission. Watershed management will be part of the agenda as a follow-up to Curtis Weeks' memorandum to John Hollenbeck dated January 6, 2006.

Mr. Hollenbeck received written confirmation of requested peak deliveries from Atascadero MWC and the cities of Paso Robles and San Luis Obispo¹. Written confirmation from Templeton CSD is pending. Participants received estimates of capital cost impacts associated with varying levels of peak deliveries. Black & Veatch is calculating ongoing operations and maintenance cost impacts of such peaking now, particularly energy costs.

Mr. Hollenbeck presented the project schedule and stated that the Draft Preliminary Design Report (PDR) will be distributed by Black & Veatch later this month. The PDR is three weeks behind schedule, however the value engineering session is on-track. Moreover, the design document preparation is in time to support the permit timeline. Commissioner Mecham confirmed that construction bids will be requested once permits are in hand. He also suggested that outreach to state and federal elected officials may be appropriate as we pursue funding from these levels.

Mr. Hollenbeck presented the project budget. Vice Chairman Romero asked whether the design phase is within budget and Mr. Hollenbeck replied yes. Easement acquisition may exceed that line item budget requiring use of design phase contingencies. Mr. Hollenbeck opined that construction costs may exceed the 2002 estimate by perhaps \$10-15 million and that this issue will be addressed at the

¹ San Luis Obispo requests no peaking other than the 10% allowance stated in the 2004 entitlement contracts.

April Commission meeting. Vice Chairman Romero encouraged designers to get advance information to material suppliers ahead of formal bidding. Mr. Hollenbeck confirmed that such dialogue is underway even now. Commissioner Mecham asked if the Nacimiento Project were listed in the Dodge Report and Mr. Hollenbeck confirmed that this is indeed the case as McGraw-Hill, the publisher of the Dodge Report, contacts him every quarter.

V. Presentations

Mr. Hollenbeck briefly introduced the staff report on project governance and Commissioner Mecham moved to approve the staff recommendation to retain the current lead agency/commission form of governance. The County Board of Supervisors' recent upholding of the reserve capacity redistribution contributed to confidence in the commission format. Commissioner Jones seconded the motion; passed unanimously.

VI. Commission Action (No Board Action Required)

Item VI.a – Vice Chairman Romero opened the floor for officer nominations. Commissioner Mecham moved to re-elect Harry Ovitt as Commission Chairman; Commissioner Jones seconded the motion; passed unanimously. Commissioner Brooks moved to re-elect Dave Romero as Commission Vice-Chair; Commissioner Mecham seconded the motion; passed unanimously.

Item VI.b - Mr. Hollenbeck presented the background on the no cost easement issue noting staff/TSG's recommendation that granting of easements by existing and New Participants be a naturally occurring form of business practice as opposed to a contractual requirement. Commissioner Jones moved to adopt staff's recommendation as a policy; Commissioner Mecham seconded the motion; passed unanimously.

VII. Commission Action (Subsequent Board Action Required)

Item VII.a – Mr. Hollenbeck and Mrs. Halley recounted recent dialogue with the two selected appraisal firms, noting that Schenberger, Taylor, McCormick and Jecker, Inc. proceeded smoothly into contract negotiations; however, Reeder, Gilman & Borgquist increased their appraisal fees as compared to their October 2005 proposal. The resulting increased fees and recommended levels of contingency result in a combined fee that exceeds the commission-approved \$190,000 appraisal budget. Mr. Hollenbeck reviewed five alternatives for proceeding with appraisal services, recommending retaining both firms but securing adequate funding to have the work completed by either firm if conditions dictate. Commissioner Jones moved to approve a \$300,000 line item budget for appraisal services and moving forward with staff's recommendation to contract with both appraisal firms. The balance of the approved budget is to be held in contingency to be used only at the District's authorization. Commissioner Brooks seconded the motion; passed unanimously.

VIII. Future Agenda Items Desired by the Commission

Brief reminder by Commissioner Jones to distribute the conflict of interest form 700's. No other items noted. Commissioner Romero adjourned the meeting at 5:20 pm.

Submitted by C.M Halley, TJCross Engineers
and John R. Hollenbeck, Nacimiento Project Manager



Nacimiento Project Commission
April 27, 2006
Agenda Item IV – Special Presentation
Salinas Valley Water Project – Report by Monterey County Water Resources Agency
(Information Only – No Action Required)

Mr. Bob Meyer, Assistant General Manager, will make a presentation on the status of the Salinas Valley Water Project, especially the planned spillway improvements and associated lake reoperation.



Nacimiento Project Commission
April 27, 2006
Agenda Item V.a – Project Management Report
(Information Only – No Action Required)

PROJECT RESOURCES

Appraisal Services

As supported by the Commission at the February 16, 2006, meeting, the Board of Supervisors authorized Schenberger, Taylor, McCormick and Jecker, Inc. and Reeder, Gilman & Borgquist to proceed with project appraisal work. Board approval was March 28, 2006. Representatives of both firms attended a kickoff meeting on April 3, 2006. Early tasks to be completed are to develop a format for summary appraisal reports and to opine on the overall project budget relating to easement/property acquisition. A revised Organization Chart is presented on the following page.

Construction Management

A strategy for soliciting statements of qualifications and fee proposals for project construction management is being developed now and will be discussed with the Technical Support Group in the months ahead.

PROJECT ISSUES

Prospective NWP Participants

Camp Roberts, Camp San Luis Obispo, and Heritage Ranch CSD await estimates of delivered water cost before deciding whether to seek Nacimiento deliveries. Black & Veatch's preliminary estimates for these potential new users are undergoing quality control checking by the District and are not yet available. They will be presented to the TSG and the Commission at a later date.

Status of Financial Issues

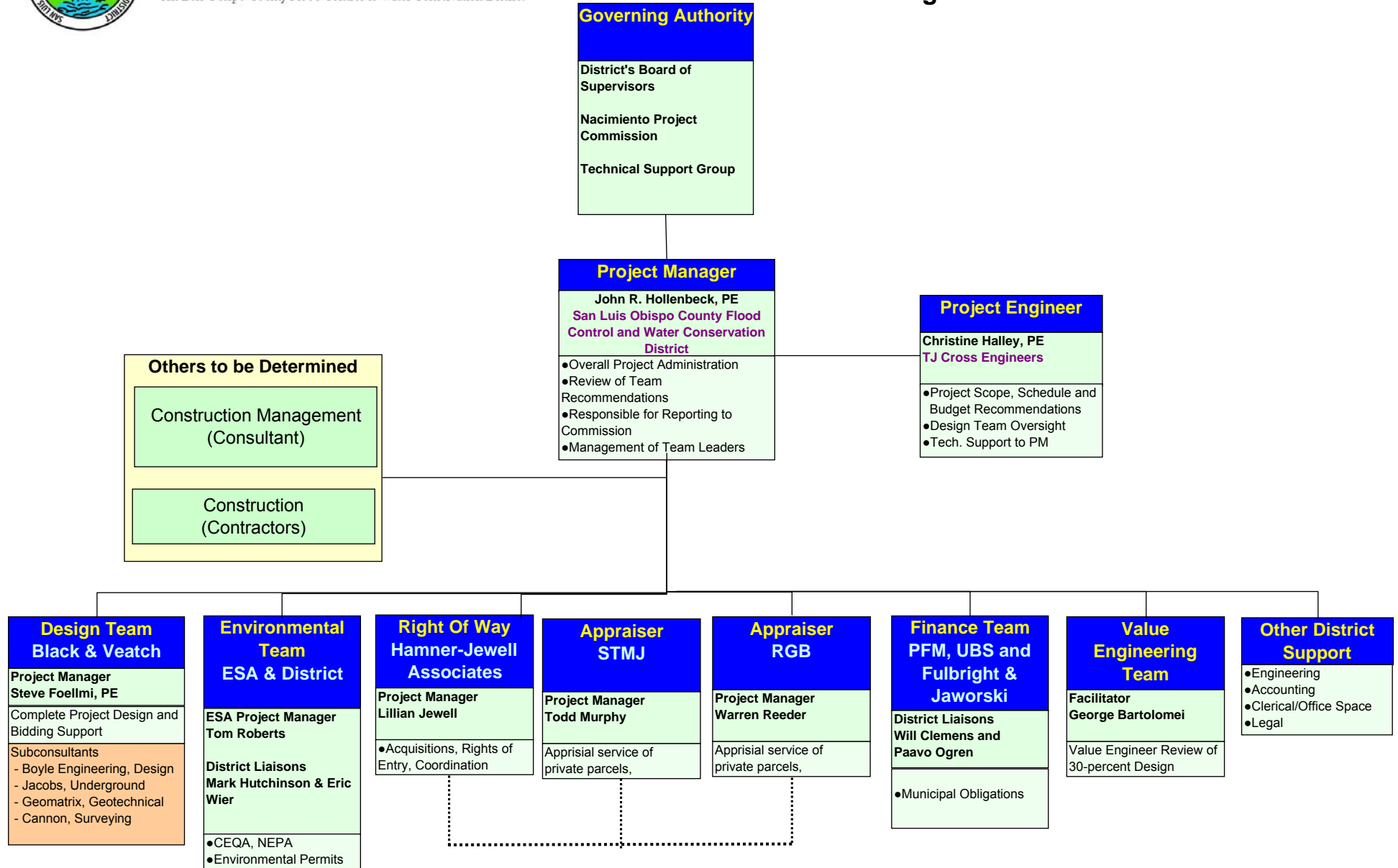
Staff learned on March 10, 2006, that the District's Proposition 50 implementation funding application was not selected to move forward in this year's process. The second round of applications is expected to begin in 2007. Although the District's proposal was not selected to proceed to Step 2 of this round, the overall ranking was seventeenth in Step 1, and 16 applicants were "called back" for Step 2. The District is developing plan improvements based on the feedback and evaluation received from DWR, together with review of other applicant's submittals.

Water Delivery Entitlement Contract Amendment No. 2

Proposed Amendment No. 2 addresses, among other things, Commission membership and steps to limit the size of the Commission over time. The District staff is coordinating comments with County Counsel and bond counsel. A draft will be issued to the Technical Support Group when available.



Project Team Organization Chart



Status of Project Delivery Team Activities

Right of way – Now that the 30% design progress submittal has been submitted and reviewed, designers are able to firm up the location of the pipeline and related project features. Project surveyors will soon begin preparation of legal descriptions for the requested easements. Appraisers are concurrently preparing the project summary appraisal report format and confirming final language for the easement deed. Hamner, Jewell & Associates has assigned priorities to groups of properties so that appraisals and offers may proceed in an orderly fashion.

Hamner, Jewell & Associates continues to make arrangements for site access and remains in contact with property owners, especially those with special concerns. An information booklet for property owners (reviewed by the TSG months ago) will soon be distributed to affected owners.

Environmental Permitting – Most pre-permit application field work is complete, but during the week of April 3 through 7, following the heavy spring rains, the environmental team conducted an additional rare plant field survey to confirm previous efforts. Vernal pool field surveys are continuing.

The permit applications to the following agencies will be submitted on April 18, 2006. This submittal is about one-month later than originally scheduled, caused by receipt of the Preliminary Design Report about three-weeks late.

➤ **Permits to Federal Agencies**

- The U.S. Army Corps of Engineers – Permit Application for fill in “waters of the United States” and wetlands under the Clean Water Act
- The U.S. Fish and Wildlife Service – Biological Assessment, supporting technical studies, and Mitigation, Monitoring and Compensation Plans
- The National Marine Fisheries Service – Biological Assessment for anadromous fish (steelhead)

➤ **State Agencies**

- The Regional Water Quality Control Board – water quality certification required by the Clean Water Act
- The State Historic Preservation Officer – consultation required for the Corps of Engineers to comply with the National Historic Preservation Act. This includes cultural resource reports and avoidance plans as supporting documentation.

ESA’s focus will shift to preparation of the EIR addendum after the submittal of the permit applications.

Design Engineering – On February 22, 2006, Black & Veatch submitted the draft Preliminary Design Report. This constitutes the first major design deliverable and it was well-received by the TSG and District staff. The Value Engineering session took place during the week of March 13, 2006, the results of which are discussed in Agenda Item V.a. This was followed by a Design workshop meeting with the District and Participant’s on April 4, 2006, during which the team discussed both the value engineering suggestions and comments on the draft



Preliminary Design Report and gave the designers direction on various project approaches. B&V will finalize the evaluation of the Value Engineering proposals that were identified at the meeting as needing further investigation and will report near the end of this month with the results.

Geotechnical Services: Laboratory work of the field samples continue. B&V is working with Geomatrix on additional geotechnical exploration that is needed at the lake intake. More subsurface work is needed to understand the mitigation of groundwater during construction due to poor ground conditions.

Survey Services: Cannon Associates is coordinating with HJA and the appraisal firms to prepare legal descriptions. B&V has identified the land acquisitions process as being on the schedule's critical path. A systematic approach to managing this process has been developed amongst the project team.

Outside Agency Issues

PG&E Coordination. The Project Manager sent a letter to PG&E in March 2006 addressing power planning issues, specifically the basis for calculating service connection charges associated with the project. PG&E has yet to reply to that letter and has yet to confirm a timeline for completing the necessary power extensions.

The NWP has signed up with PG&E for their Savings by Design program which is an electrical energy evaluation of the project features (pump stations and pipeline sizes). The draft reports from PG&E were received and are being reviewed by the District and B&V.

Monterey County Water Resources Agency. The Project Manager, Commissioner Mecham, and others met with representatives from Monterey County Water Resources Agency on March 24, 2006. Curtis Weeks, General Manager with MCWRA, presented status update on their Salinas Valley Water Project. NOAA Fisheries has not yet submitted their Biological Opinion to the SVWP. MCWRA was successful in being asked back for Step 2 of the DWR Proposition 50 implementation grant process.

John Hollenbeck presented a status update of the NWP, including the 30-percent design submittal and the Value Engineering session. The six intake proposals developed during the VE session were described to the MCWRA representatives.

On April 6, 2006, John Hollenbeck made a presentation at the MCWRA's Reservoir Operations Committee meeting in Salinas, CA. The presentation highlighted the intake configuration presented in the Preliminary Design Report, the Value Engineering proposals for the intake structure, and the adopted modifications for the intake session as outlined in the April 4, 2006, design workshop meeting. Mr. Hollenbeck also advised that more geotechnical exploration work is needed at the intake facility, and reminded MCWRA that the log boom will need to be relocated to keep people a minimum of 500-feet away from the new intake portals.

Camp Roberts. Dialogue with Camp Roberts/Army Corps staff continues to go well. They had few comments on the 30-percent design submittal. The April 2006 staff meeting has been rescheduled for May 16, 2006, to allow for progress on the Value Engineering modifications proposed through Camp Roberts, CEQA addendum work on the power lines through the post, final alignment issues, and cost allocation evaluation for potential delivery of water to both Camp Roberts and Camp San Luis.

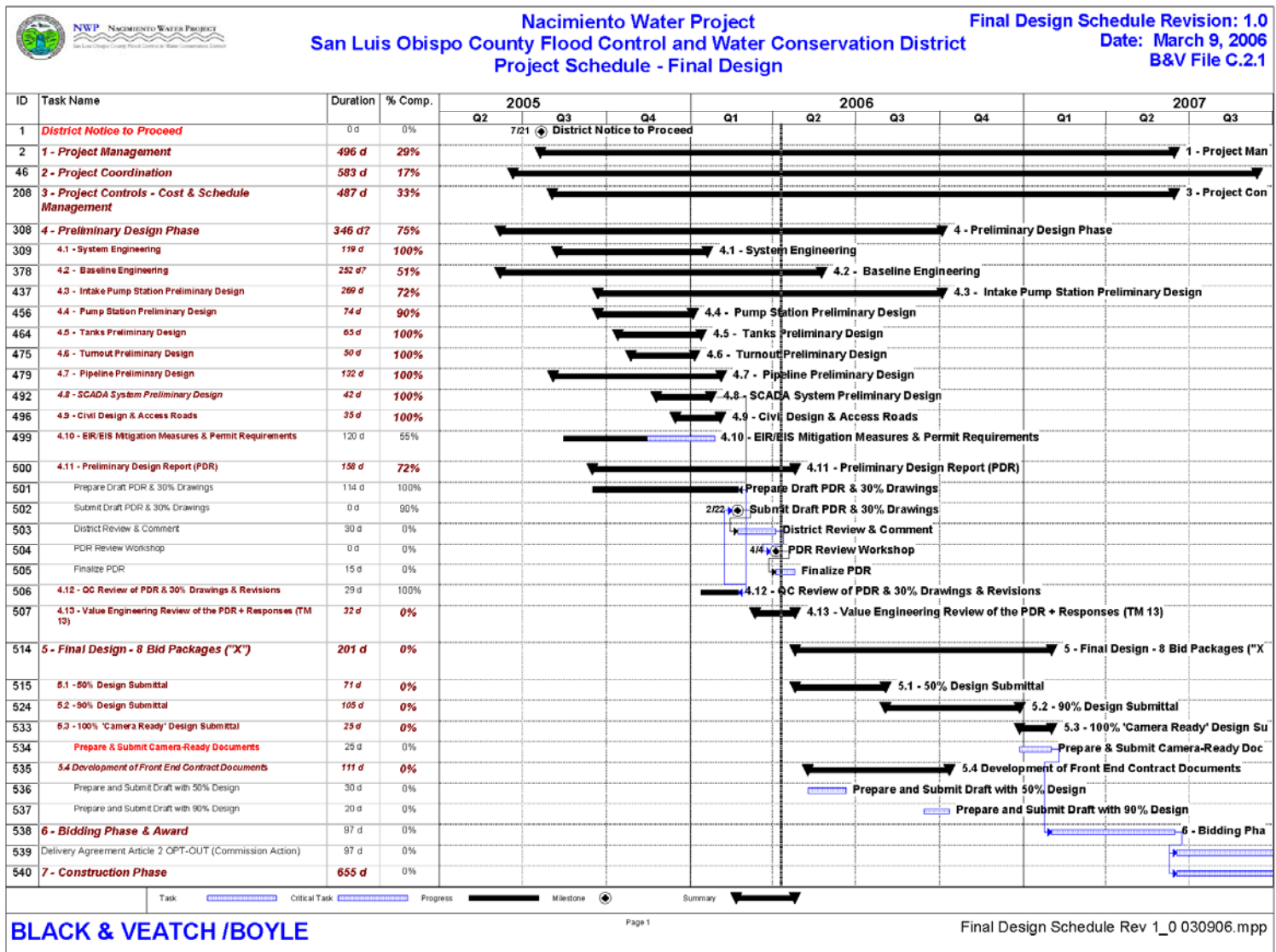
Nacimientto Project Commission

April 27, 2006

Agenda Item V.b – Project Schedule

(Information Only – No Action Required)

Project progress has slipped slightly and is judged to be a month behind schedule. This represents the first lost time on the project since a detailed Design Phase schedule was established in July 2005. The slippage is primarily tied to the delivery of the Preliminary Design Report. Receipt of final design documents are presently not on the critical path but instead either permit timelines or easement acquisition steps are likely to drive the schedule between now and advertising for bids, with easement acquisition presently identified on the critical path. The bar chart below is a summary of project activities.



Nacimientto Project Commission

April 27, 2006

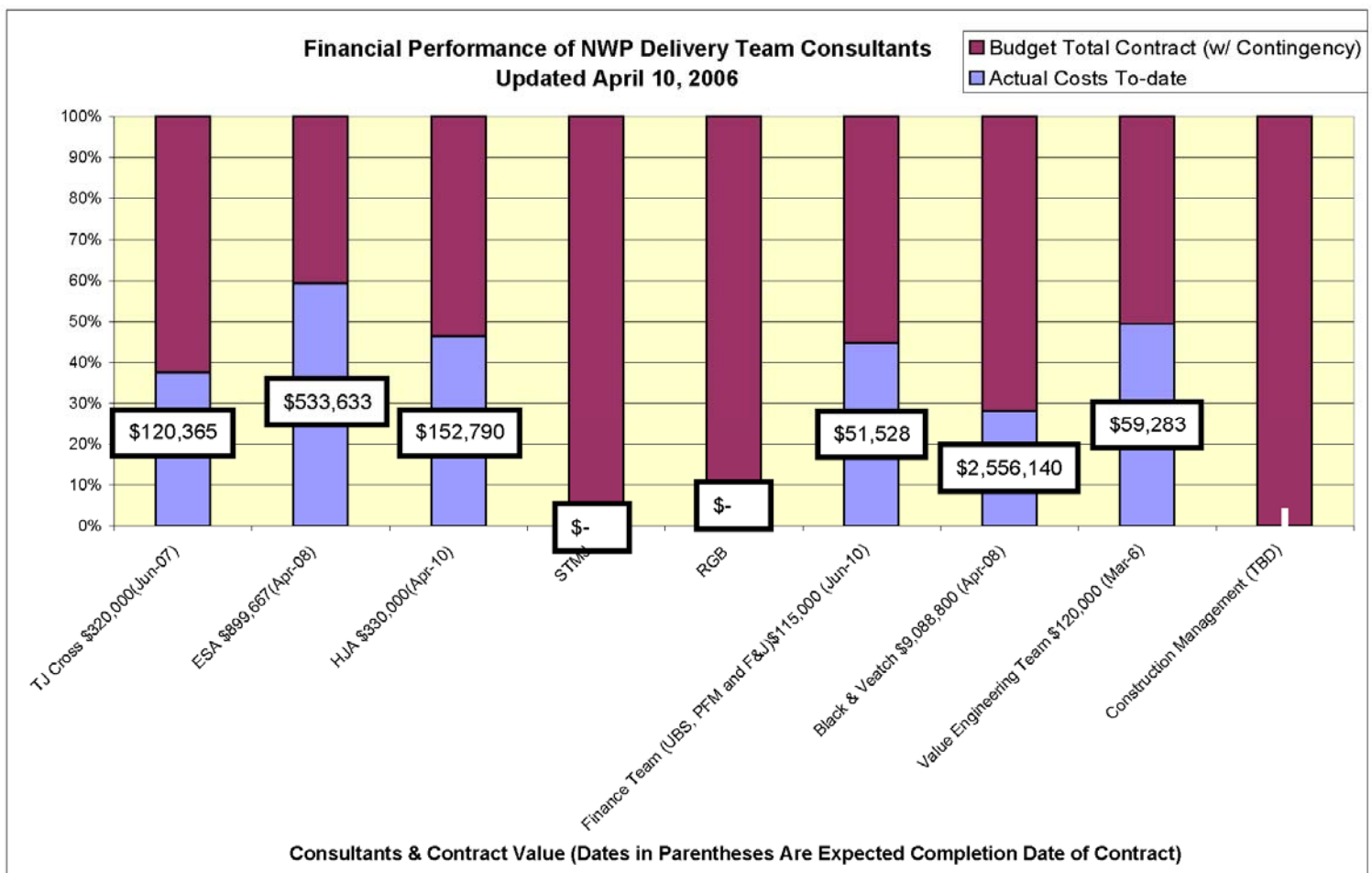
Agenda Item V.c – Project Budget

(Information Only – No Action Required)

The design phase activities remain within budget (refer to the attached status information). The \$2 million Property Acquisition line item budget is under evaluation by the appraisal team. Their input will allow us to budget with more confidence that anticipated expenditure.

The VE session was conducted March 13 through 16, 2006, in Ontario, CA. The final cost of the VE session was about half the budgeted amount. The savings will be returned to the contingency within the Project Management Line Item Budget. The bar chart below shows the final VE session costs compared with the original budget for this activity. Future presentations of this activity will be changed so that budget and actual are equal.

As the design progresses, more accurate estimates of project costs are being developed. This issue is discussed in Agenda Item V.a.



***** D R A F T *****
Nacimiento Water Project
Project Budget Reporting
Report Ending Period: 3/31/06

	Initial Budget	Revised Budget as Approved February 2006	Cost to Date thru 3/31/06	Remaining Budget	Projected Total Cost as of 12/20/05	Projected Variance (Budget Vs. Cost)	Comments
Design Phase Anticipated Costs							
Project Management	\$1,250,000	\$1,875,000	\$953,783	\$921,217	\$1,875,000	\$0	Includes County Project Manager, VE, support staff, consultant support, and legal fees.
Environmental	\$800,000	\$899,667	\$542,964	\$356,703	\$899,667	\$0	ESA-Includes design assistance, permit applications, agency coordination.
PG&E Service Extension	\$1,100,000	\$1,100,000	\$5,170	\$1,094,830	\$1,100,000	\$0	Initial estimate to extend power to proposed facilities
Right of Way Consulting Services	\$500,000	\$635,000	\$213,643	\$421,357	\$425,000	\$210,000	Hamner-Jewell contract plus allowance for appraisal and title reports by others
Property Acquisition	\$2,000,000	\$2,000,000	\$25,248	\$1,974,752	\$2,000,000	\$0	
Construction Mgt/Constructability Review	\$2,000,000	\$2,000,000		\$2,000,000	\$2,000,000	\$0	Initial CM services authorization
Engineering Design (Includes geotechnical & survey)	\$10,250,000	\$9,650,000	\$2,312,287	\$7,337,713	\$9,088,800	\$561,200	Black and Veatch Corporation
Finance	\$0	\$115,000		\$115,000	\$115,000	\$0	PFM, UBS, and Fulbright&Jaworski
					Total Variance=	\$771,200	
Design Phase Budget Reserve	\$1,000,000	\$625,333		\$625,333	\$1,396,533		
SUMMARY - DESIGN PHASE	\$18,900,000	\$18,900,000	\$4,053,097	\$14,846,904	\$18,900,000		
Construction Phase Anticipated Costs							
Project Management	\$2,325,000	\$2,712,500		\$2,712,500	\$2,712,500	\$0	2/05-extended +4 months
Environmental Mitigation	\$3,700,000	\$3,720,000		\$3,720,000	\$3,720,000	\$0	Contingency item (estimated as approximately 4% of construction cost) for pipeline realignment, special construction techniques, and other costs incurred due to unforeseen environmental issues
Materials Testing	\$300,000	\$300,000		\$300,000	\$300,000	\$0	
Construction Management	\$4,200,000	\$4,185,000		\$4,185,000	\$4,185,000	\$0	Est. at 4.5% of construction cost, inc design phase work
Environmental Monitoring	\$1,800,000	\$1,800,000		\$1,800,000	\$1,800,000	\$0	Includes cost for cultural and biological monitors during construction
Construction Contracts	\$93,000,000	\$93,000,000		\$93,000,000	\$93,000,000	\$0	
Construction Phase Contingency and Reserve	\$24,231,000	\$23,838,500		\$23,838,500	\$23,838,500	\$0	
SUMMARY - CONST. PHASE	\$129,556,000	\$129,556,000	\$0	\$129,556,000	\$129,556,000	\$0	
Prior Expenses							
Advance Expenditures	\$513,000	\$513,000		\$513,000	\$513,000	\$0	
Cuesta Tunnel	\$1,031,000	\$1,031,000		\$1,031,000	\$1,031,000	\$0	Includes construction of Nacimiento Water Project pipeline section through Cuesta Tunnel
				\$0	\$0	\$0	
TOTAL PROJECT*	\$150,000,000	\$150,000,000	\$4,053,097	\$145,946,904	\$150,000,000	\$771,200	

* Rounded to \$100k

Memorandum(s):

Positive Projected Variance indicates costs are under the revised line item budget.

Recent Update: 4/06/06

Nacimiento Project Commission
April 27, 2006
**Agenda Item VI – Preliminary Design Report,
Value Engineering and Total Project Cost Update**
(Presentation - No Action Required)

Black & Veatch submitted the draft Preliminary Design Report (PDR) in February which later became the subject of a value engineering review in March, followed by a design workshop with the Technical Support Group and other team members on April 4, 2006. The result is a well-reviewed 30-percent design progress submittal accompanied by a series of cost-saving value engineering ideas. This agenda item recaps the value engineering ideas and contains an updated engineer's opinion of project costs based on the 30-percent design progress status.

Preliminary Design Report

The overall draft PDR document consists of the PDR plus five (5) volumes of design and supporting data as summarized in Table 1.

**Table 1
PDR Status Summary**

PDR Volume	Description	Status
PDR	Executive Summary and 25 Chapters	Submitted on 2/22/06. .
Appendices, Volume I	Appendix A, Detailed Construction Schedule Appendix B, PDR Construction Cost Opinion Appendix C, Cost Control Plan Appendix D, Bidding Market Conditions Assessment Appendix E, Pipeline Alignment Studies/ Refinements Appendix F, Crossings Evaluation (not used) Appendix G, Construction Permits Appendix H, Cost Allocation Model	Submitted on 2/22/06 except for Appendix B, which was provided during the week of 2/27/06.
Volume II, Technical Memoranda (TMs)	Technical Memorandum (TM) 1, Project Standards TM2, Project Phasing/Flow Peaking Evaluation TM3, Operations Plan TM4, Hydraulic and Surge Analyses TM5, Project Controls Design and Integration TM6, System/Project Startup/Testing Requirements TM7, Electrical Power Supply and Energy Study TM8, Water Quality Investigations TM9, Geotechnical Baseline Report TM10, Corrosion Engineering TM11, Seismic Design Criteria TM12, Construction and Contracting Plan TM13, Value Engineering Responses TM14, Hydroelectric/Solar Energy Feasibility Study TM15, Evaluation of Pump Sizing and Type TM16, Evaluation of Storage Tank Sizing and Type	Submitted on 2/22/06, except for TM9 and TM 13, to be submitted after completion of the Geotechnical Report and the Value Engineering Workshop, respectively.
Volume III	Appendix J, Geotechnical Data Reports Appendix K, Geotechnical Interpretative Reports	App J submitted 2/22/06. App K to be provided after submission of the GDR/GIR.
Volume IV	Appendix L, Technical Specifications (Preliminary) Appendix M, Standard Details	Submitted 2/22/06.
Volume V	Appendix N, Preliminary Design Drawings (291 sheets)	Submitted 2/22/06.

Distribution to the Project Stakeholders was as follows:

- ▼ Mr. John Hollenbeck, Nacimiento Project Manager, SLOCFCWCD (4 copies)
- ▼ Mr. Tom Roberts, Project Manager, ESA
- ▼ Mr. Brad Hagemann, Water Resources Manager, City of Paso Robles
- ▼ Mr. Bill Van Orden, General Manager, Templeton Community Services District
- ▼ Mr. Ken Weathers, CEO/Treasurer, Atascadero Mutual Water Company
- ▼ Mr. John Moss, Utilities Director, City of San Luis Obispo
- ▼ Ms. Christine Halley, TJ Cross Engineers
- ▼ Mr. Bob Meyer, Assistant General Manager, Monterey County Water Resources Agency
- ▼ Mr. David Gutierrez, Chief, California Division of Safety of Dams²
- ▼ Ms. Jill Eichbauer, Federal Energy Regulatory Commission, Office of Energy Projects²
- ▼ J. T. Haas, Industrial Power Engineer, Pacific Gas & Electric Company
- ▼ Col. Darryl Balcao, Construction and Facilities Management Office, State of California, Military Department

The PDR and associated volumes of the Appendices were also sent to members of the value engineering (VE) Team, as discussed in the subsection below.

Stakeholder review comments were compiled into a summary table and shared with the design team on March 31, 2006. The design team will respond to each comment, including the additional comments that are pending pertaining to the drawings and technical specifications.

Review and resolution of stakeholder comments will be performed in April with the Final PDR completed on April 28, 2006.

Value Engineering

Value engineering (VE) was provided to receive independent review and comment with emphasis on cost-saving ideas and risk mitigation. The VE Team was comprised of the following individuals in addition to some design team members (see photograph insert):

- ▼ George J. Bartolomei (Team Facilitator)
- ▼ Bruce Corwin (General Civil – Large Infrastructure)
- ▼ Kermit Paul (Mechanical, Electrical and Controls)
- ▼ Dr. Dave Bennett (Intake and Facility Crossing)
- ▼ Gary R. Martin (Pipeline, Civil-Structural)
- ▼ Lance Regular (Construction Cost Estimator)
- ▼ Joe Sperry (Underground Practice & Cost Estimator)
- ▼ Harrell Larose (Construction/Field Operations)

² The PDR was sent to DSOD and FERC for their review and evaluation of the Project relative to any safety concerns with the Nacimiento Dam. Both agencies have replied in writing that the Project is non-jurisdictional regarding dam safety.



Nacimiento Water Project – Value Engineering Session March 13 – 16, 2006, Ontario, CA

Value Engineering (VE) Team and Design Team (DT) Support Members

Front Row (L to R): Kermit Paul (VE), Dave Bennett (VE), Bruce Corwin (VE), Lance Regular (VE)

Back Row (L to R): Andy Romer (DT), Paul Kneitz (DT), Joe Sperry (VE), Clay Haynes (DT), Dave Yankovich (DT), Gary Martin (VE), Steve Foellmi (DT), Harrell Larose (VE), George Bartolomei (VE)

All team members received a copy of the PDR Volume. Copies of Appendices and Technical Memoranda specific to each VE Team Member's area(s) of expertise were also provided.

The VE Session, which was conducted March 13-16, 2006, was led by George J. Batrolomei of the Value Management Institute. The findings were summarized in a report and presented to the District and the design team. The professionals that comprised the VE team dedicated their review to four primary areas:

- The intake structure
- Pump stations and tanks
- The pipeline alignment
- General Project Controls and Overall Program

Fifteen of the VE proposals addressed the intake structure with suggestions ranging from reducing shaft depth to replacing the tunnel and shaft concept altogether with a floating barge. Alternative layouts were explored that would allow horizontal directional drilling in addition to microtunneling.

VE proposals pertaining to pumps addressed simplified pump station architecture and layouts. Six proposals for alternative tank design approaches were brought forth, ranging from the use of lined ponds in lieu of tanks to relocation of the proposed Cuesta Tunnel Tank. The VE panel also brought forth a proposal to relocate the Camp Roberts pump station downstream of Paso Robles' turnout.

Twenty two VE ideas pertained to pipeline alignment and material selection. Modified river crossings, making use of Participant-owned property, and measures to avoid private properties were brought forward. A group of suggestions dealt with competitive pipeline materials and the benefits of allowing them in forthcoming bid documents. Another group suggested varying hydraulic operations to reduce the pressure class requirement for some pipeline reaches.

Another significant group of VE suggestions sought efficiencies in project controls and overall operations. Energy recovery at turnouts, construction water arrangements, and packaging of bids were all included in this group.

Each VE suggestion was accompanied by an estimate of potential cost impact. These were rough “order of magnitude” only and serve as a guide to the potential cost impact. Overall, the VE session was a success in that feasible, cost-saving ideas resulted along with numerous design suggestions that lend to quality bid documents.

The design team has reviewed the VE Team’s comments and has prepared a draft response to the VE ideas. Each item that was accepted will be incorporated into the project design either as part of the Final PDR or the 50 percent design submittal. Items that were found to have value potential, but required additional analysis, were discussed at the PDR Review Workshop held on April 4, 2006. The status of each of the items evaluated further is presented in Table 2.

Table 2
Status of VE Items Evaluated Further

VE Item	Estimate of Savings		Adopt?
	VE Team	Design Team	
IN-1 Eliminate 2 of 3 tunnels at the intake and install a sloping intake along the lake bank	\$4,000,000	\$3,220,000	Yes
PA-4 Install the pipe “off road” at Camp Roberts to avoid pavement	\$2,200,000	\$735,000	Yes
PT-4 Evaluate tank size/functions/cost relationships	Design Suggestion	\$6,300,000	TSG input on 4/13 is to allow for 30 minute emergency storage in tanks and no time-of-use operations
PA-6 Move Camp Roberts PS into Paso thereby reducing pipe pressure for lower material and energy costs	\$7,400,000	\$2,400,000	TSG input on 4/13 is to look at cost/ROW impacts of moving Camp Roberts PS into Paso Robles
Subtotal Adopted VE Items =		\$12,655,000	
IN-2/3 Move the intake pump station closer to the lake, thereby reducing the shaft depth	- -	\$200,000	No
IN-6 Configure so that HDD or microtunneling both may be used	\$5,600,000	\$200,000	No*
IN-9 Float the intake and discharge to a wet well	\$9,600,000	\$8,100,000	No**
PT-2 Relocate the Cuesta Tunnel Tank to avoid unstable soils	- -	TBD	No
PA-3 Modify pipeline at AMWC property	\$200,000	Varies	On hold until land appraiser’s budget estimate is prepared

* Adopt HDD as possible construction method alternative, but do not include in the permit application at this time.

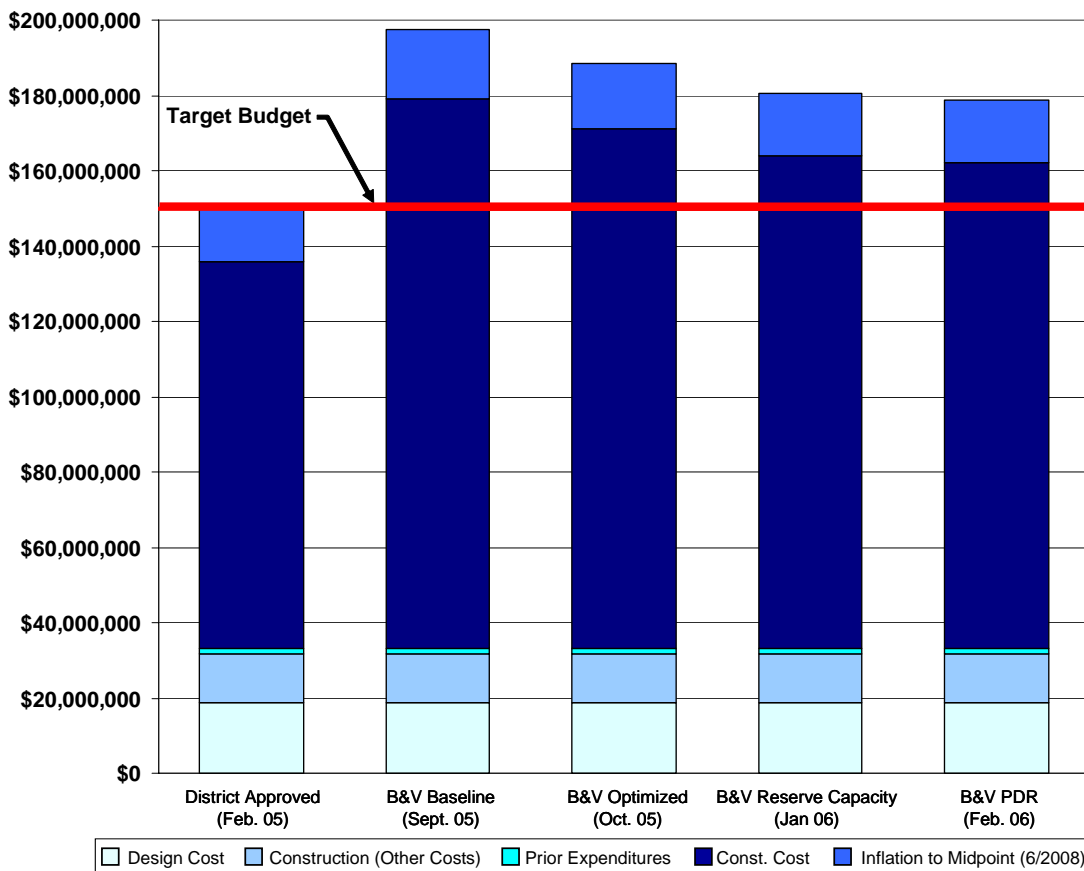
** Potential savings are deemed to be overestimated when considering present worth of operating costs; not considered to be a long-term solution

Total Project Cost Update

In August 2004, Participants entered into Water Delivery Entitlement Contracts approving an overall project budget of \$150 million. The project budget was developed to be representative of the total anticipated expenditure to complete the project including (1) design costs, (2) construction-other costs, (3) prior expenditures, and (4) inflation costs to the mid-point of construction. The estimate was based primarily on preliminary engineering work prepared by Carollo Engineers in 2002.

The evaluation of the project construction cost is shown on Figure 1. In September 2005, the Design Team established a baseline cost for the project of \$198 million (second bar on the figure). This baseline construction cost component was based on 2005 cost pricing, inflated to the midpoint of construction. Subsequently, it was determined that through (1) pipeline optimization analyses in October 2005 and (2) modifications to the design assumptions used for distribution of the Reserve Capacity, significant cost savings could be achieved. The resulting project costs were adjusted as illustrated in the following figure.

Figure 1
NWP Project Cost Development
(Prior to Potential VE Cost Adjustments)



An updated project cost estimate was prepared based on the 30 percent design documents in the PDR. Refer to Table 3 and the fifth bar on Figure 1.

Table 3
30 Percent Opinion of Probable Project Costs
(Prior to Potential VE Cost Adjustments)

Description	Total
Main Pipeline Construction Cost Opinion	\$103,200,000
Design Contingency (25%)	\$25,800,000
Total Present Construction Cost	\$129,000,000
Construction Cost Inflation to Mid-Point Construction	\$16,400,000
Total Construction Cost (June 2008)	\$145,400,000
Total Project Cost as of 30% Design Progress	\$177,800,000³

While many components of the overall project budget can be estimated with relative certainty, others are less certain and depend on many variables. Examples of this are property acquisition costs (currently estimated at \$2 million) and PG&E service extension (now estimated at \$1.1 million). Property acquisition costs will vary depending on factors such as the easement rights sought, the extent of temporary easement sought, land values, and the number of affected properties. PG&E's approach to levying the service connection fees will affect project costs as will the adopted Savings by Design features. Because of this, total project costs will vary as we progress through final design into construction.

The data shown on Figure 1 illustrate that reduction in the overall project cost from the September 2005 baseline estimate has been achieved. However, the total estimated project cost remains significantly over the desired District budget of \$150 million.

Adoption of the VE recommendations is expected to contribute to further cost savings as noted in Table 2.

³ The total project cost includes the revised estimate of construction cost plus other project costs such as design phase activities, environmental costs, easement acquisition, and other project costs.